



NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES
REPORT ON EXAMINATION
OF THE
SEGREGATED GIFT ANNUITY FUND
OF THE
CHILDREN'S AID SOCIETY

CONDITION:

DECEMBER 31, 2013

DATE OF REPORT:

OCTOBER 29, 2014

NEW YORK STATE DEPARTMENT OF FINANCIAL SERVICES

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OF THE

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EXAMINER:

MICHAEL PEKULY

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NEW YORK STATE
DEPARTMENT *of*
FINANCIAL SERVICES

Andrew M. Cuomo
Governor

Maria T. Vullo
Acting Superintendent

March 8, 2016

Honorable Maria T. Vullo
Acting Superintendent of Financial Services
New York, New York 10004

Madam:

In accordance with instructions contained in Appointment No. 31140, dated April 8, 2014 and annexed hereto, an examination has been made into the condition and affairs of the Segregated Gift Annuity Fund of the Children's Aid Society, hereinafter referred to as "the Fund," at its home office located at 105 East 22nd Street, New York, NY.

Wherever "Department" appears in this report, it refers to the New York State Department of Financial Services.

The report indicating the results of this examination is respectfully submitted.

1. EXECUTIVE SUMMARY

The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements from the board members indicating that they received and read the prior report on examination. The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination. (See item 4 of this report)

The examiner's review of a sample of transactions did not reveal any differences which materially affected the Fund's financial condition as presented in its financial statements contained in the December 31, 2013 filed annual statement. (See item 5 of this report)

The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated. (See item 6 of this report)

2. SCOPE OF EXAMINATION

The prior examination was conducted as of December 31, 2008. This examination covers the period from January 1, 2009 through December 31, 2013. As necessary, the examiner reviewed transactions occurring subsequent to December 31, 2013 but prior to the date of this report (i.e., the completion date of the examination).

The examination comprised a verification of assets and liabilities as of December 31, 2013 to determine whether the Fund's filed 2013 annual statement fairly presents its financial condition. The examiner reviewed the Fund's income and disbursements necessary to accomplish such verification. The examiner reviewed the prior report on examination which did not contain any violations, recommendations or comments.

This report on examination is confined to financial statements and comments on those matters which involve departure from laws, regulations, or rules or which require explanation or description.

3. DESCRIPTION OF FUND

The Children's Aid Society (the "Society") is organized for the purpose of improving the condition of disadvantaged children in New York City and to provide services for individuals with mental or developmental impairments. Under the provisions of its by-laws, the Children's Aid Society is permitted to issue gift annuity agreements and it has done so since 1996. A special permit was granted to the Society by the Department on April 2, 1999, authorizing it to issue gift annuity agreements as specified in Section 1110 of the New York Insurance Law.

The Fund performs the responsibilities of gift sourcing, calculation of the annuity amount, the preparation of contracts and direct contact with donors. The Bank of New York Mellon ("BNY Mellon") is the Fund's custodian and investment manager. BNY Mellon performs administrative services on behalf of the Fund, including accounting and tax reporting, issuing payments to beneficiaries and preparing annual state filings in New York and New Jersey.

The management of the Society and the Fund and all of its affairs and property are entrusted to a board of trustees. The number of trustees is limited to no fewer than fifteen (15) and no more than thirty-eight (38) regular voting trustees. As of December 31, 2013, the board consisted of thirty-three (33) trustees. The trustees elect the Chairman, one or more Vice Chairmen, a Secretary, a Treasurer and other assistants as they deem appropriate. The nomination and election procedures of the trustees and their terms of office are set by the by-laws.

4. CORPORATE GOVERNANCE

Section 312(b) of the New York Insurance Law states, in part:

“(b) A copy of the report shall be furnished by such insurer or other person to each member of its board of directors and each such member shall sign a statement which shall be retained in the insurer’s files confirming that such member has received and read such report . . .”

The Fund failed to maintain statements signed by each board member indicating that they received and read the prior report on examination.

The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements from the board members indicating that they received and read the prior report on examination. The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination.

5. SIGNIFICANT FINANCIAL INFORMATION

The following table indicates the Fund's financial growth (decline) during the period under review:

	<u>December 31,</u> <u>2008</u>	<u>December 31,</u> <u>2013</u>	<u>Increase</u> <u>(Decrease)</u>
Admitted assets	<u>\$3,622,567</u>	<u>\$3,969,409</u>	<u>\$ 346,842</u>
Liabilities	<u>\$1,894,787</u>	<u>\$2,386,439</u>	<u>\$ 491,652</u>
Minimum required surplus	\$ 189,479	\$ 238,644	\$ 49,165
Unassigned funds (surplus)	<u>1,538,302</u>	<u>1,344,327</u>	<u>(193,975)</u>
Total surplus	<u>\$1,727,781</u>	<u>\$1,582,970</u>	<u>\$(144,811)</u>
Total liabilities and surplus	<u>\$3,622,567</u>	<u>\$3,969,409</u>	<u>\$ 346,842</u>

The increase in assets and liabilities reflects an increase in annual payments despite a decrease in annuities in force during the examination period. Annual payments increased from \$350,457 as of December 31, 2008 to \$531,619 as of December 31, 2013; however, annuities in force decreased from 40 as of December 31, 2008 to 37 as of as of December 31, 2013.

The Fund's growth in assets and liabilities during the examination period can primarily be attributed to the addition of a gift of \$2,000,000 during the year 2011.

The decrease in surplus is attributable to an excess of disbursements over income of \$433,113 and \$431,100 in 2012 and 2013, respectively.

The Fund's admitted assets, as of December 31, 2013, were invested mainly in bonds (91.54%). All bonds held were investment grade.

6. TREATMENT OF ANNUITANTS

The examiner reviewed a sample of annuity files to determine whether the annuitants were treated fairly and in accordance with the provisions of the annuity agreements. The examination also consisted of a review of the various controls involved, a check of the accuracy of the computations and the tracing of accounting data to the books of account.

The examiner's review of a sample of 12 annuity contracts terminated revealed that in 8 out of 12 (66.67%) cases reviewed, the Fund did not obtain a copy of the death certificate to confirm termination of the annuity contract. Seven of the eight terminated annuities pertain to one deceased annuitant. For the two annuitants for whom the Fund did not obtain a copy of the death certificate, the Fund obtained copies of the obituaries.

The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.

7. SUMMARY AND CONCLUSIONS

Following are the violation and recommendations contained in this report:

<u>Item</u>	<u>Description</u>	<u>Page No(s).</u>
A	The Fund violated Section 312(b) of the New York Insurance Law by failing to maintain signed statements from the board members indicating that they received and read the prior report on examination.	5
B	The examiner recommends that the Fund comply with Section 312(b) of the New York Insurance Law by obtaining and maintaining the signature of each board member indicating that they received and read the prior report on examination.	5
C	The examiner recommends that the Fund obtain copies of the death certificates of annuitants for annuity contracts terminated.	7

Respectfully submitted,

_____/s/
Michael Pekuly
Insurance Examiner

STATE OF NEW YORK)
)SS:
COUNTY OF NEW YORK)

Michael Pekuly, being duly sworn, deposes and says that the foregoing report, subscribed by him, is true to the best of his knowledge and belief.

_____/s/
Michael Pekuly

Subscribed and sworn to before me
this _____ day of _____

APPOINTMENT NO. 31140

NEW YORK STATE

DEPARTMENT OF FINANCIAL SERVICES

I, BENJAMIN M. LAWSKY, Superintendent of Financial Services of the State of New York, pursuant to the provisions of the Financial Services Law and the Insurance Law, do hereby appoint:

MICHAEL PEKULY

as a proper person to examine the affairs of the

**SEGREGATED GIFT ANNUITY FUND OF THE
CHILDREN'S AID SOCIETY**

and to make a report to me in writing of the condition of said

FUND

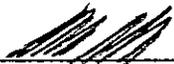
with such other information as he shall deem requisite.

In Witness Whereof, I have hereunto subscribed my name
and affixed the official Seal of the Department
at the City of New York

this 8th day of April, 2014

BENJAMIN M. LAWSKY
Superintendent of Financial Services

By:



MICHAEL MAFFEI

ASSISTANT DEPUTY SUPERINTENDENT
AND CHIEF OF THE LIFE BUREAU

